ALTERA CORP
Form 10-Q
October 24, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 26, 2014
OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________ to ________

Commission file number 0-16617

ALTERA CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation or organization)	77-0016691 (I.R.S. Employer Identification Number)

101 INNOVATION DRIVE
SAN JOSE, CALIFORNIA 95134
(Address of principal executive offices) (zip code)
408-544-7000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [x] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [x] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer [x]	Accelerated filer [ ]	Non-accelerated filer [ ]	Smaller reporting company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [x]

Number of shares of common stock outstanding at October 10, 2014: 304,816,766

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PART I FINANCIAL INFORMATION

ITEM 1: Financial Statements
ALTERA CORPORATION
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In thousands, except par value amount)	September 26, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$2,680,085	$2,869,158
Short-term investments	134,059	141,487
Total cash, cash equivalents, and short-term investments	2,814,144	3,010,645
Accounts receivable, net	406,708	483,032
Inventories	186,338	163,880
Deferred income taxes — current	54,402	63,228
Deferred compensation plan — marketable securities	65,492	66,455
Deferred compensation plan — restricted cash equivalents	15,897	16,699
Other current assets	41,260	48,901
Total current assets	3,584,241	3,852,840
Property and equipment, net	197,213	204,142
Long-term investments	1,744,830	1,695,066
Deferred income taxes — non-current	21,929	10,806
Goodwill	74,341	73,968
Acquisition-related intangible assets, net	74,756	82,150
Other assets, net	83,720	76,676
Total assets	$5,781,030	$5,995,648
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$47,910	$44,163
Accrued liabilities	41,403	41,218
Accrued compensation and related liabilities	73,354	51,105
Deferred compensation plan obligations	81,389	83,154
Deferred income and allowances on sales to distributors	397,002	487,746
Total current liabilities	641,058	707,386
Income taxes payable — non-current	310,199	276,326
Long-term debt	1,492,436	1,491,466
Other non-current liabilities	7,629	8,403
Total liabilities	2,451,322	2,483,581
Commitments and contingencies		
(See "Note 14 — Commitments and Contingencies")		
Stockholders' equity:		
Common stock: $.001 par value; 1,000,000 shares authorized; outstanding - 305,851 shares at September 26, 2014 and 317,769 shares at December 31, 2013	306	318
Capital in excess of par value	1,171,744	1,216,826
Retained earnings	2,163,647	2,322,885
Accumulated other comprehensive loss	(5,989)	(27,962)
Total stockholders' equity	3,329,708	3,512,067
Total liabilities and stockholders' equity	$5,781,030	$5,995,648

See accompanying notes to consolidated financial statements.

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ALTERA CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

(In thousands, except per share amounts)	Three Months Ended September 26, 2014	Three Months Ended September 27, 2013	Nine Months Ended September 26, 2014	Nine Months Ended September 27, 2013
Net sales	$499,606	$ 445,945	$1,452,216	$ 1,278,205
Cost of sales	166,019	141,525	480,279	402,712
Gross margin	333,587	304,420	971,937	875,493
Research and development expense	112,078	95,336	310,856	278,542
Selling, general, and administrative expense	77,724	78,907	231,205	235,376
Amortization of acquisition-related intangible assets	2,465	1,846	7,394	2,974
Compensation (benefit)/expense — deferred compensation plan	(487)	3,462	4,093	6,724
Loss/(gain) on deferred compensation plan securities	487	(3,462)	(4,093)	(6,724)
Interest income and other	(4,558)	(2,214)	(18,362)	(6,651)
Gain reclassified from other comprehensive (loss)/income	(59)	(33)	(150)	(129)
Interest expense	10,774	2,511	32,139	8,365
Income before income taxes	135,163	128,067	408,855	357,016
Income tax expense	17,154	8,635	47,328	15,885
Net income	118,009	119,432	361,527	341,131
Other comprehensive (loss)/income:				
Unrealized holding (loss)/gain on investments:				
Unrealized holding (loss)/gain on investments arising during period, net of tax of ($6), $30, $41 and ($12)	(4,929)	2,419	22,102	(6,613)
Less: Reclassification adjustments for gain on investments included in net income, net of tax of $11, $11, $21 and $21	(48)	(22)	(129)	(108)
Other comprehensive (loss)/income	(4,977)	2,397	21,973	(6,721)
Comprehensive income	$113,032	$ 121,829	$383,500	$ 334,410
Net income per share:				
Basic	$0.38	$ 0.37	$1.16	$ 1.07
Diluted	$0.38	$ 0.37	$1.15	$ 1.05
Shares used in computing per share amounts:				
Basic	308,215	320,445	311,853	320,266
Diluted	310,184	323,505	314,130	323,355
Dividends per common share	$0.18	$ 0.15	$0.48	$ 0.35

See accompanying notes to consolidated financial statements.

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ALTERA CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in thousands)

	Nine Months Ended	
	September 26, 2014	September 27, 2013
Cash Flows from Operating Activities:		
Net income	$361,527	$341,131
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	42,426	34,256
Amortization of acquisition-related intangible assets	7,394	2,974
Amortization of debt discount and debt issuance costs	2,337	844
Stock-based compensation	70,518	73,011
Net gain on sale of available-for-sale securities	(150)	(129)
Amortization of investment discount/premium	1,900	2,575
Deferred income tax expense/(benefit)	11,509	(5,629)
Tax effect of employee stock plans	7,434	5,405
Excess tax benefit from employee stock plans	(4,719)	(4,165)
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable, net	76,324	(111,231)
Inventories	(22,458)	(2,494)
Other assets	3,939	28,673
Accounts payable and other liabilities	32,581	12,509
Deferred income and allowances on sales to distributors	(90,744)	95,961
Income taxes payable	21,477	(8,753)
Deferred compensation plan obligations	(5,858)	(5,489)
Net cash provided by operating activities	515,437	459,449
Cash Flows from Investing Activities:		
Purchases of property and equipment	(34,946)	(31,216)
Sales of deferred compensation plan securities, net	5,858	5,489
Purchases of available-for-sale securities	(276,867)	(258,809)
Proceeds from sale of available-for-sale securities	79,424	84,900
Proceeds from maturity of available-for-sale securities	175,280	143,392
Acquisitions, net of cash acquired	—	(145,321)
Purchases of intangible assets	(1,269)	—
Purchases of other investments	(8,224)	(2,101)
Net cash used in investing activities	(60,744)	(203,666)
Cash Flows from Financing Activities:		
Proceeds from issuance of common stock through stock plans	29,871	38,748
Shares withheld for employee taxes	(20,852)	(24,787)
Payment of dividends to stockholders	(149,844)	(112,175)
Holdback payment for prior acquisition	(3,353)	—
Payment of debt assumed in acquisitions	—	(22,000)
Long-term debt and credit facility issuance costs	(1,321)	—
Repurchases of common stock	(502,986)	(60,276)
Excess tax benefit from employee stock plans	4,719	4,165
Net cash used in financing activities	(643,766)	(176,325)
Net (decrease)/increase in cash and cash equivalents	(189,073)	79,458

Cash and cash equivalents at beginning of period	2,869,158	2,876,627
Cash and cash equivalents at end of period	$2,680,085	$2,956,085

See accompanying notes to consolidated financial statements.

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ALTERA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 — Organization and Basis of Presentation

The accompanying unaudited consolidated financial statements of Altera Corporation and its subsidiaries, collectively referred to herein as “Altera”, “we”, “us”, or “our”, have been prepared by us in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information. This financial information reflects all adjustments which are, in the opinion of our management, of a normal recurring nature and necessary for a fair statement of the results for the periods presented. The December 31, 2013 consolidated balance sheet data was derived from our audited consolidated financial statements included in our 2013 Annual Report on Form 10-K, as filed with the Securities and Exchange Commission (“SEC”), but does not include all disclosures required by U.S. GAAP. The consolidated financial statements include our accounts as well as those of our wholly-owned subsidiaries after elimination of all significant inter-company balances and transactions.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in our consolidated financial statements and accompanying notes. Actual results could differ materially from those estimates.

These consolidated financial statements should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2013 included in our Annual Report on Form 10-K. The consolidated operating results for the three months and nine months ended September 26, 2014 are not necessarily indicative of the results to be expected for any future period.

Certain prior year amounts in the consolidated financial statements and the notes thereto have been reclassified to conform to the current year presentation. Except for the balance sheet reclassification discussed further in Note 2, these reclassifications did not affect the prior period total assets, total liabilities, stockholders' equity, net income or net cash provided by operating activities.

Note 2 — Recent Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2013-11, “Presentation of an Unrecognized Tax Benefit when a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.” This standard requires an entity to present unrecognized tax benefits as a reduction to deferred tax assets when a net operating loss carryforward, similar tax loss or a tax credit carryforward exists, with limited exceptions. We adopted this requirement in the first quarter of 2014 with retrospective application as permitted by the standard. Amounts presented in prior periods have been reclassified to conform. This resulted in both Income taxes payable—non-current and Deferred income taxes—non-current declining by approximately $7.9 million and $14.2 million on our consolidated balance sheets as of September 26, 2014 and December 31, 2013, respectively.

In May 2014, the FASB issued a new financial accounting standard on revenue from contracts with customers, ASU No. 2014-09, "Revenue from Contracts with Customers." The standard outlines a single comprehensive model for companies to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The accounting standard is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2016. Early adoption is not permitted. We are currently evaluating the impact of this accounting standard on our consolidated financial statements.

In June 2014, the FASB issued ASU 2014-12, which provides new guidance on accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. The update requires a reporting entity to treat a performance target that affects vesting and that could be achieved after the requisite service period as a performance condition under Accounting Standards Codification Topic ("ASC") 718 Compensation — Stock Compensation, and apply existing guidance as it relates to awards with performance conditions that affect vesting to account for such awards. The update is effective for the interim and annual periods beginning after December 15, 2015. The adoption of this standard is not expected to impact our consolidated financial statements.

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Note 3 — Acquisitions

During the year ended December 31, 2013, we completed two acquisitions (collectively the "2013 Acquisitions") qualifying as business combinations in exchange for aggregate net cash consideration of $145.3 million, net of cash acquired. Substantially all of the consideration was allocated to Goodwill and Acquisition-related intangible assets, net. For information on the goodwill arising from these acquisitions, see Note 4 — Goodwill and for information on the classification of intangible assets, see Note 5 — Acquisition-Related Intangible Assets, Net. These acquisitions, both individually and in the aggregate, were not significant to our consolidated results of operations. In connection with one of these acquisitions, we assumed debt of $22.0 million, which was paid off in full immediately following the closing of the acquisition. We had no outstanding debt as of September 26, 2014 relating to these acquisitions. In connection with one of these acquisitions, an amount equal to 10% of the total purchase price was held back for payment to the former parent company on the first anniversary of the closing of the acquisition net of any indemnification obligations. During the three months ended June 27, 2014, we paid this holdback in the amount of $3.4 million.

Note 4 — Goodwill

Goodwill activity was as follows:

(In thousands)	Nine Months Ended September 26, 2014
Beginning Balance	$73,968
Additions due to 2013 Acquisitions	373
Ending Balance	$74,341

Goodwill increased $0.4 million during the nine months ended September 26, 2014 due to a revision in the historical net operating loss carryforwards for one of our 2013 Acquisitions. Goodwill is tested for impairment annually during the fourth quarter unless a triggering event would require an expedited analysis. Adverse changes in operating results and/or unfavorable changes in economic factors used to estimate fair value could result in a non-cash impairment charge in the future.

Note 5 — Acquisition-Related Intangible Assets, Net

Acquisition-related intangible assets, net were as follows:

	September 26, 2014			
(In thousands)	Gross Assets	Accumulated Amortization	Net	Weighted-Average Amortization Period
Developed technology	$67,670	$(9,817)	$57,853	9.4 years
Customer relationships	12,910	(3,020)	9,890	6.8 years
Trade name	3,700	(565)	3,135	8.9 years
Non-competition agreements	700	(475)	225	2.0 years
Other intangible assets	930	(777)	153	1.2 years
Acquisition-related intangible assets, net subject to amortization	85,910	(14,654)	71,256	
In-process research & development	3,500	—	3,500	

Total acquisition-related intangible assets, net	$89,410	$(14,654)	$74,756

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(In thousands)	December 31, 2013 Gross Assets	Accumulated Amortization	Net	Weighted-Average Amortization Period
Developed technology	$60,770	$(4,445)	$56,325	9.4 years
Customer relationships	12,910	(1,597)	11,313	6.8 years
Trade name	3,700	(253)	3,447	8.9 years
Non-competition agreements	700	(213)	487	2.0 years
Other intangible assets	930	(752)	178	1.2 years
Acquisition-related intangible assets subject to amortization, net	79,010	(7,260)	71,750	
In-process research & development	10,400	—	10,400	
Total acquisition-related intangible assets, net	$89,410	$(7,260)	$82,150	

In-process research & development ("IPR&D") assets represent the fair value of incomplete research and development projects that had not reached technological feasibility as of the date of acquisition. In 2013, we capitalized IPR&D of $28.1 million related to the 2013 Acquisitions. Initially, these assets are classified as indefinite-lived intangible assets that are not subject to amortization. IPR&D assets related to projects that have been completed are transferred to the developed technology intangible asset to begin amortization, while IPR&D assets related to abandoned projects are impaired and expensed to Research and development expense in the consolidated statements of comprehensive income. During the nine months ended September 26, 2014, we reclassified $6.9 million of IPR&D costs to the developed technology intangible asset upon finalization of one of the projects. No projects were abandoned. The remaining IPR&D project that made up the IPR&D intangible asset balance as of September 26, 2014 is expected to be completed by the end of 2014.

Based on the carrying values as of September 26, 2014, the annual amortization expense for Acquisition-related intangible assets, net is expected to be as follows:

Fiscal Year	Amortization Expense (In thousands)
2014 (remaining three months)	$2,465
2015	9,646
2016	9,327
2017	9,151
2018	9,039
Thereafter	31,628
Total	$71,256

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Note 6 — Financial Instruments

Cash, Cash Equivalents and Marketable Securities

The following tables summarize our cash and available-for-sale securities by significant investment category.

	September 26, 2014						
(In thousands)	Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short-Term Marketable Securities	Long-Term Marketable Securities
Cash	$86,058	$—	$—	$86,058	$86,058	$—	$—
Available-for-sale:							
Level 1:							
Money market funds	2,575,403	—	—	2,575,403	2,575,403	—	—
U.S. treasury securities	1,641,228	1,762	(8,059)	1,634,931	18,624	45,038	1,571,269
Subtotal	4,216,631	1,762	(8,059)	4,210,334	2,594,027	45,038	1,571,269
Level 2:							
U.S. agency securities	27,379	23	(5)	27,397	—	11,215	16,182
Non-U.S. government securities	18,610	5	(2)	18,613	—	17,080	1,533
Municipal bonds	2,000	1	(2)	1,999	—	—	1,999
Corporate debt securities	214,217	448	(92)	214,573	—	60,726	153,847
Subtotal	262,206	477	(101)	262,582	—	89,021	173,561
Total	$4,564,895	$2,239	$(8,160)	$4,558,974	$2,680,085	$134,059	$1,744,830

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(In thousands)	December 31, 2013 Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short-Term Marketable Securities	Long-Term Marketable Securities
Cash	$71,880	$—	$—	$71,880	$71,880	$—	$—
Available-for-sale:							
Level 1:							
Money market funds	2,763,094	—	—	2,763,094	2,763,094	—	—
U.S. treasury securities	1,604,450	15	(28,298)	1,576,167	34,184	39,262	1,502,721
Subtotal	4,367,544	15	(28,298)	4,339,261	2,797,278	39,262	1,502,721
Level 2:							
U.S. agency securities	53,755	33	(18)	53,770	—	26,999	26,771
Non-U.S. government securities	18,352	5	—	18,357	—	9,306	9,051
Municipal bonds	2,603	—	(7)	2,596	—	603	1,993
Corporate debt securities	219,491	425	(69)	219,847	—	65,317	154,530
Subtotal	294,201	463	(94)	294,570	—	102,225	192,345
Total	$4,733,625	$478	$(28,392)	$4,705,711	$2,869,158	$141,487	$1,695,066

We have made certain cost method investments of approximately $20.6 million. These investments are included within Other assets, net in our consolidated balance sheets. The investments are in privately held companies in which we have less than a 20% interest and no significant influence over the investees' operations. We report these investments at cost, except when investments are found to be more than temporarily impaired after an impairment review.

The adjusted cost and estimated fair value of marketable debt securities (corporate debt securities, municipal bonds, U.S. and foreign government securities, and U.S. treasury securities) as of September 26, 2014, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations without call or prepayment penalties.

(In thousands)	September 26, 2014 Cost	Estimated Fair Value
Due in one year or less	$152,554	$152,683
Due after one year through five years	1,351,050	1,343,299
Due between six and ten years	399,830	401,531
	$1,903,434	$1,897,513

As of September 26, 2014, we had 113 securities, or $1.2 billion out of our total available-for-sale securities investment portfolio, that were in a continuous unrealized loss position for less than 12 months with a gross unrealized loss of $8.2 million. As of December 31, 2013, we had 137 securities, or $1.6 billion out of our total available-for-sale securities investment portfolio, that were in a continuous unrealized loss position for less than 12 months with a gross unrealized loss of $28.4 million.

We concluded that the declines in market value of our available-for-sale securities investment portfolio were temporary in nature and did not consider any of our investments to be other-than-temporarily impaired.

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Note 7 — Accounts Receivable, Net and Significant Customers

Accounts receivable, net was comprised of the following:

(In thousands)	September 26, 2014	December 31, 2013
Gross accounts receivable	$407,208	$483,628
Allowance for doubtful accounts	(500)	(500)
Allowance for sales returns	—	(96)
Accounts receivable, net	$406,708	$483,032

We sell our products to original equipment manufacturers ("OEMs") and to electronic components distributors who resell these products to OEMs, or their subcontract manufacturers. Net sales by customer type and net sales to significant customers were as follows:

(Percentage of Net Sales)	Three Months Ended September 26, 2014	Three Months Ended September 27, 2013	Nine Months Ended September 26, 2014	Nine Months Ended September 27, 2013
Sales to distributors	74 %	76 %	73 %	76 %
Sales to OEMs	26 %	24 %	27 %	24 %
	100 %	100 %	100 %	100 %
Significant Distributors(1):				
Arrow Electronics, Inc. (“Arrow”)	40 %	41 %	38 %	41 %
Macnica, Inc. (“Macnica”)	22 %	23 %	23 %	23 %

(1) Except as presented above, no other distributor accounted for greater than 10% of our net sales for the three and nine months ended September 26, 2014 or September 27, 2013.

One OEM accounted for 11% of our net sales for the year-to-date period ended September 26, 2014, and 11% and 12%, respectively, of our net sales for quarterly and year-to-date periods ended September 27, 2013. Another OEM accounted for 10% of our net sales for the quarterly period ended September 26, 2014. No other individual OEM accounted for more than 10% of our net sales for the quarterly or year-to-date periods ended September 26, 2014 or September 27, 2013.

As of September 26, 2014, accounts receivable from Arrow and Macnica individually accounted for approximately 33% and 57%, respectively, of our total accounts receivable. As of December 31, 2013, accounts receivable from Arrow and Macnica individually accounted for approximately 26% and 55%, respectively, of our total accounts receivable. No other distributor or OEM accounted for more than 10% of our accounts receivable as of September 26, 2014 or December 31, 2013.

Note 8 — Inventories

Inventories were comprised of the following:

(In thousands)	September 26, 2014	December 31, 2013

Raw materials	$8,596	$8,390
Work in process	108,927	104,755
Finished goods	68,815	50,735
Total inventories	$186,338	$163,880

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Note 9 — Property and Equipment, Net

Property and equipment, net was comprised of the following:

(In thousands)	September 26, 2014	December 31, 2013
Land and land rights	$23,157	$23,157
Buildings	159,858	159,123
Equipment and software	291,465	281,197
Office furniture and fixtures	24,646	24,438
Leasehold improvements	12,345	12,391
Construction in progress	9,572	1,798
Property and equipment, at cost	521,043	502,104
Accumulated depreciation	(323,830)	(297,962)
Property and equipment, net	$197,213	$204,142

Depreciation expense was $11.9 million and $37.1 million for the three and nine months ended September 26, 2014, respectively. Depreciation expense was $10.8 million and $31.2 million for the three and nine months ended September 27, 2013, respectively. Depreciation and amortization expense as presented in our consolidated statements of cash flows includes the above amounts, together with amortization expense on our non-acquisition related intangible assets.

Note 10 — Deferred Income and Allowances on Sales to Distributors

Deferred income and allowances on sales to distributors was comprised of the following:

(In thousands)	September 26, 2014	December 31, 2013
Deferred revenue on shipment to distributors	$426,157	$512,872
Deferred cost of sales on shipment to distributors	(35,518)	(33,809)
Deferred income on shipment to distributors	390,639	479,063
Other deferred revenue [1]	6,363	8,683
Total	$397,002	$487,746

(1) Principally represents revenue deferred on our maintenance contracts, software and intellectual property licenses.

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The Deferred income and allowances on sales to distributors activity was as follows:

(In thousands)	Nine Months Ended September 26, 2014	September 27, 2013
Balance at beginning of period	$487,746	$345,993
Deferred revenue recognized upon shipment to distributors	4,421,484	4,343,526
Deferred cost of sales recognized upon shipment to distributors	(212,856)	(194,429)
Revenue recognized upon sell-through to end customers	(852,256)	(776,649)
Cost of sales recognized upon sell-through to end customers	208,318	190,124
Earned distributor price concessions [(1)]	(3,602,558)	(3,410,814)
Returns	(50,615)	(57,532)
Other	(2,261)	4,486
Balance at end of period	$397,002	$444,705

(1) Average aggregate price concessions typically range from 70% to 85% of our list price on an annual basis, depending upon the composition of our sales, volumes and factors associated with timing of shipments to distributors.

We sell the majority of our products to distributors worldwide at a list price. However, distributors resell our products to end customers at a very broad range of individually negotiated prices based on a variety of factors, including customer, product, quantity, geography and competitive differentiation. The majority of our distributors' sales to their customers are priced at a discount from our list price. Under these circumstances, we remit back to the distributor a portion of its original purchase price after the resale transaction is completed, and we validate the distributor's resale information, including end customer, device, quantity and price, against the distributor price concession that we have approved in advance. To receive a price concession, a distributor must submit the price concession claim to us for approval within 60 days of the resale of the product to an end customer. It is our practice to apply these negotiated price discounts to future purchases, requiring the distributor to settle receivable balances, on a current basis, generally within 30 days, for amounts originally invoiced.

Note 11 — Accumulated Other Comprehensive Loss

The following table presents the components of, and the changes in, Accumulated other comprehensive loss, net of tax:

(In thousands)	December 31, 2013	Other Comprehensive Income	September 26, 2014
Accumulated unrealized loss on available-for-sale securities, net of tax	$(27,962)	$ 21,973	$(5,989)
Accumulated other comprehensive loss	$(27,962)	$ 21,973	$(5,989)

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Note 12 — Net Income Per Share

A reconciliation of basic and diluted Net income per share is presented below:

(In thousands, except per share amounts)	Three Months Ended		Nine Months Ended	
	September 26, 2014	September 27, 2013	September 26, 2014	September 27, 2013
Basic:				
Net income	$118,009	$119,432	$361,527	$ 341,131
Basic weighted shares outstanding	308,215	320,445	311,853	320,266
Net income per share	$0.38	$0.37	$1.16	$ 1.07
Diluted:				
Net income	$118,009	$119,432	$361,527	$ 341,131
Weighted shares outstanding	308,215	320,445	311,853	320,266
Effect of dilutive securities:				
Stock options, employee stock purchase plan, and restricted stock unit shares	1,969	3,060	2,277	3,089
Diluted weighted shares outstanding	310,184	323,505	314,130	323,355
Net income per share	$0.38	$0.37	$1.15	$ 1.05

In applying the treasury stock method, we excluded 1.3 million and 1.8 million stock option shares and restricted stock unit (including performance-based restricted stock unit) shares for the three and nine months ended September 26, 2014, respectively, and 1.9 million stock option shares and restricted stock unit (including performance-based restricted stock unit) shares for each of the three and nine months ended September 27, 2013, respectively, because their effect was anti-dilutive. While these shares have been anti-dilutive, they could be dilutive in the future.

Note 13 — Credit Facility and Long-Term Debt

Credit Facility

In 2012, we entered into a five-year $250 million unsecured revolving credit facility (the "Facility"). Under certain circumstances, upon our request and with the consent of the lenders, the commitments under the Facility may be increased up to an additional $250 million. Borrowings under the Facility will bear interest at a base rate determined in accordance with the Facility, plus an applicable margin based upon the debt rating of our non-credit enhanced, senior unsecured long-term debt. In addition, we are obligated to pay a quarterly commitment fee, payable in arrears, based on the available commitments. This Facility fee varies and is also determined based on our debt rating. The terms of the Facility require compliance with certain financial and non-financial covenants, which we had satisfied as of September 26, 2014. As of September 26, 2014, we had not borrowed any funds under the Facility.

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Long-term Debt

The carrying values and associated effective interest rates for our Long-term debt were as follows:

(In thousands, except rates)	Effective Interest Rate	September 26, 2014	December 31, 2013
2013 Senior Notes due November 15, 2018 at 2.50%	2.71%	$597,398	$ 596,920
2013 Senior Notes due November 15, 2023 at 4.10%	4.29%	395,433	395,056
2012 Senior Notes due May 15, 2017 at 1.75%	1.94%	499,605	499,490
Total long-term debt		$1,492,436	$ 1,491,466

In 2013, we issued $600 million aggregate principal amount of 2.50% senior notes (the “2.50% Notes”) and $400 million aggregate principal amount of 4.10% senior notes (the “4.10% Notes”) for stock repurchases and general corporate purposes. We received net proceeds of $991.8 million, after deduction of a discount of $8.2 million, and we capitalized direct debt issuance costs of $5.5 million from issuance of the 2.50% Notes and the 4.10% Notes.

In 2012, we issued $500 million aggregate principal amount of 1.75% senior notes (the "1.75% Notes") to repay our outstanding credit facility. We received net proceeds of $499.2 million, after deduction of a discount of $0.8 million, and we capitalized direct debt issuance costs of $3.7 million from issuance of the 1.75% Notes.

All three of our senior notes (the “Notes”) pay a fixed rate of interest semiannually on May 15 and November 15 of each year. The Notes are governed by a base and supplemental indenture between Altera and U.S. Bank National Association, as trustee. The Notes are unsecured and unsubordinated obligations, ranking equally in right of payment to all of our existing and future unsecured and unsubordinated indebtedness and senior in right of payment to any of our future indebtedness that is expressly subordinated to the Notes. We may redeem the Notes, in whole or in part, at any time and from time to time for cash at the redemption prices described in the indentures.

The direct debt issuance costs associated with the Notes are recorded in Other assets, net in our consolidated balance sheets and are being amortized to Interest expense in our consolidated statements of comprehensive income over the contractual term using the effective interest method.

The carrying values of the Notes are reflected in our consolidated balance sheets as follows:

	2.50% Notes		4.10% Notes		1.75% Notes	
(In thousands)	Sept. 26, 2014	Dec. 31, 2013	Sept. 26, 2014	Dec. 31, 2013	Sept. 26, 2014	Dec. 31, 2013
Principal amount	$600,000	$600,000	$400,000	$400,000	$500,000	$500,000
Unamortized discount	(2,602)	(3,080)	(4,567)	(4,944)	(395)	(510)
Net carrying value	$597,398	$596,920	$395,433	$395,056	$499,605	$499,490

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Interest expense related to the Notes was included in Interest expense in the consolidated statements of comprehensive income as follows:

(In thousands)	Three Months Ended		Nine Months Ended	
	September 26, 2014	September 27, 2013	September 26, 2014	September 27, 2013
Contractual coupon interest	$9,928	$2,172	$29,596	$6,481
Amortization of debt issuance costs	456	243	1,367	729
Amortization of debt discount	323	38	970	115
Total interest expense related to the Notes	$10,707	$2,453	$31,933	$7,325

The other components of Interest expense in our consolidated statements of comprehensive income are interest expense incurred as part of the assumed debt in one of our 2013 Acquisitions and interest expense incurred related to bank service fees incurred in connection with the Facility.

As of September 26, 2014, future principal payments for the Notes were as follows:

Fiscal Year	Payable (In thousands)
2014 (remaining three months)	$—
2015	—
2016	—
2017	500,000
2018 and thereafter	1,000,000
Total	$1,500,000

Our Notes are classified within Level 1 of the fair value hierarchy and the estimated fair value of the Notes is based on quoted market prices. The estimated fair value of the Notes is as follows:

(In thousands)	2.50% Notes		4.10% Notes		1.75% Notes	
	Sept. 26, 2014	Dec. 31, 2013	Sept. 26, 2014	Dec. 31, 2013	Sept. 26, 2014	Dec. 31, 2013
Estimated fair value	$608,040	$598,836	$415,200	$392,680	$502,650	$501,310

Note 14 — Commitments and Contingencies

Indemnification and Product Warranty

We indemnify certain customers, distributors, suppliers, and subcontractors for attorney's fees and damages and costs awarded against these parties in certain circumstances in which our products are alleged to infringe third party intellectual property rights, including patents, trade secrets, trademarks or copyrights. We cannot estimate the amount of potential future payments, if any, that we might be required to make as a result of these agreements. To date, we have not paid any claim or been required to defend any action related to our indemnification obligations, and, accordingly, we have not accrued any amounts for such indemnification obligations. However, we may record charges in the future as a result of these indemnification obligations.

We generally warrant our devices for one year against defects in materials, workmanship and material non-conformance to our specifications. We accrue for known warranty issues if a loss is probable and can be reasonably estimated, and accrue for estimated but unidentified issues based on historical activity. If there is a material increase in customer claims compared with our historical experience or if the costs of servicing warranty claims are greater than expected, we may record a charge against cost of sales. Warranty expense was not significant for any period presented in our consolidated statements of comprehensive income.

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Purchase Obligations

We depend entirely upon subcontractors to manufacture our silicon wafers and provide assembly and test services. Due to lengthy subcontractor lead times, we must order these materials and services from these subcontractors well in advance, and we are obligated to pay for the materials and services once they are completed. As of September 26, 2014, we had approximately $143.0 million of outstanding purchase commitments to such subcontractors. We expect to receive and pay for these materials and services over the next six months.

Operating Leases

We lease facilities under non-cancelable lease agreements expiring at various times through 2024. There have been no significant changes to our operating lease obligations since December 31, 2013.

Legal Proceedings

On July 17, 2014, PLL Technologies, Inc. (PTI) filed a patent infringement lawsuit against Altera and three additional defendants in the United States District Court for the District of Delaware seeking unspecified damages, interest, costs, and fees. On October 1, 2014, PTI amended its complaint, and on October 20, 2014, Altera answered the complaint, denying the patents are valid and denying infringement. Because the case is at a very early stage, we cannot determine at this time whether any loss has been incurred by Altera nor can we reasonably estimate any potential loss or range of potential loss.

On June 20, 2014, Altera filed an action in the United States District Court for the Northern District of California against PACT XPP Technologies, AG (“PACT”), for a declaratory judgment of non-infringement and invalidity relating to several patents that PACT has asserted against us. On October 8, 2014, PACT answered the complaint and asserted counterclaims that Altera infringes various patents owned by PACT. Because the case is at a very early stage, we cannot determine at this time whether any loss has been incurred by Altera nor can we reasonably estimate any potential loss or range of potential loss.

We file income tax returns with the Internal Revenue Service (“IRS”) and in various United States ("U.S.") states and foreign jurisdictions. On December 8, 2011 and January 23, 2012, the IRS issued Statutory Notices of Deficiency (the “Notices”) determining, respectively, additional taxes for 2002 through 2004 of $19.8 million and additional taxes for 2005 through 2007 of $21.4 million, excluding interest. The IRS’s determinations relate primarily to inter-company transactions, computational adjustments to the R&D credit and reductions to the benefits of tax credit carry backs and carry forwards. We deposited $18.0 million as a cash bond with the IRS in 2008, and converted this amount to tax payments in March 2012. On March 6, 2012 and April 20, 2012, we filed petitions challenging the Notices in the U.S. Tax Court. The petitions request redetermination of the deficiencies produced by the IRS’s adjustments. The IRS has filed responses to our petitions, in which the IRS conceded the R&D credit adjustment for 2004. The Tax Court has consolidated the two cases and a judge has been assigned. The federal statute of limitations for the 2002 and 2003 tax years has expired, and the ongoing Tax Court litigation concerns only the 2004 through 2007 years.

On January 31, 2013, the IRS conceded one of the adjustments at issue in the litigation for the 2004 through 2007 tax years. The conceded adjustment related to certain inter-company services transactions. The concession only impacted our 2007 tax year. As a result of this concession, we recognized a tax and interest benefit of $6.8 million in 2013 due to the release of certain tax reserves. Altera and the IRS have filed cross motions for partial summary judgment on the largest adjustment still at issue, which is related to the treatment of stock-based compensation in an inter-company cost-sharing transaction. As part of the partial motion for summary judgment process, both sides filed briefs on May 28, 2013, July 25, 2013 and September 9, 2013. We expect to present additional legal arguments related to certain affirmative adjustments raised by Altera in the litigation. The parties have filed a series of Joint Status Reports with the court addressing these affirmative adjustments. The parties presented oral arguments on the partial summary judgment issue to the Tax Court on July 24, 2014. We believe we have made adequate tax payments or accrued adequate amounts for our tax liabilities for 2004 through 2007 and that the outcome of the above matters will not have a material adverse effect on our consolidated operating results or financial position.

On April 19, 2013, the IRS notified us that we would be audited for each of the 2010 and 2011 tax years. We believe we have made adequate tax payments or accrued adequate amounts for our tax liabilities for 2010 and 2011 and that the outcome of the audit will not have a material adverse effect on our consolidated operating results or financial position.

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Note 15 — Stock-Based Compensation

Our equity incentive program is a broad-based, long-term retention program intended to attract, motivate, and retain talented employees as well as align stockholder and employee interests. The program provides stock-based incentive compensation (“awards”) to both our eligible employees and non-employee directors. Awards that may be granted under the program include non-qualified and incentive stock options, restricted stock units (“RSU”s), performance-based restricted stock units (“PRSU”s), restricted stock awards, stock appreciation rights, and stock bonus awards. To date, awards granted under the program consist of stock options, RSUs and PRSUs. The majority of stock-based awards granted under the program vest over four years. Stock options granted under the program have a maximum contractual term of ten years.

We settle employee stock option exercises, ESPP purchases, and the vesting of RSUs and PRSUs with newly issued common shares.

We have issued PRSUs to senior executives with vesting that is contingent on both market performance and continued service ("market-based PRSUs"). For market-based PRSUs issued in 2012, 2013, and 2014, the number of shares of Altera stock to be received at vesting will range from 0% to 200% of the target amount based on the percentage by which our total shareholder return ("TSR") exceeds or falls below the Philadelphia Semiconductor Index ("SOX") TSR during a 3-year measurement period. We estimate the fair value of market-based PRSUs using a Monte Carlo simulation model on the date of grant. The model incorporates assumptions for the risk-free interest rate, Altera and SOX price volatility, the correlation between Altera and the SOX index, and dividend yields. Compensation expense is recognized ratably over the 3-year measurement period.

Stock-based compensation expense included in our consolidated statements of comprehensive income was as follows:

(In thousands)	Three Months Ended		Nine Months Ended	
	September 26, 2014	September 27, 2013	September 26, 2014	September 27, 2013
Cost of sales	$449	$515	$1,410	$1,460
Research and development expense	9,172	11,324	30,323	32,125
Selling, general, and administrative expense	12,830	13,898	38,785	39,426
Pre-tax stock-based compensation expense	22,451	25,737	70,518	73,011
Less: income tax benefit	(5,825)	(6,720)	(18,670)	(18,908)
Net stock-based compensation expense	$16,626	$19,017	$51,848	$54,103

No stock-based compensation was capitalized during any period presented above. As of September 26, 2014, unrecognized stock-based compensation cost related to outstanding unvested stock options, RSUs, PRSUs and Employee Stock Purchase Plan ("ESPP") shares that are expected to vest was approximately $139.7 million. This unrecognized stock-based compensation cost is expected to be recognized over a weighted average period of approximately 2.3 years. We apply an expected forfeiture rate when amortizing stock-based compensation expense. To the extent our actual forfeiture rate is different from our estimate, stock-based compensation related to these awards will be different from our expectations.

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The assumptions used to estimate the fair value of the ESPP, RSU, and PRSU awards granted under the equity incentive program were as follows:

	Three Months Ended		Nine Months Ended	
	September 26, 2014	September 27, 2013	September 26, 2014	September 27, 2013
ESPP purchase rights:				
Expected term (in years)	—	—	1.0	1.0
Expected stock price volatility	—	—	25.5 %	31.2 %
Risk-free interest rate	—	—	0.1 %	0.1 %
Dividend yield	—	—	1.9 %	1.3 %
Weighted-average estimated fair value	—	—	$7.68	$8.41
RSUs:				
Risk-free interest rate	0.8 %	0.5 %	0.7 %	0.3 %
Dividend yield	2.2 %	1.7 %	1.9 %	1.2 %
Weighted-average estimated fair value	$31.24	$33.41	$30.99	$32.20
PRSUs:				
Expected Altera stock price volatility	—	—	32.2 %	34.7 %
Expected SOX stock price volatility	—	—	24.3 %	27.1 %
Risk-free interest rate	—	—	0.9 %	0.3 %
Dividend yield	—	—	1.9 %	1.2 %
Weighted-average estimated fair value per share	—	—	$31.18	$33.03

We granted 303,260 and 262,647 market-based PRSUs in the nine months ended September 26, 2014 and September 27, 2013, respectively, to senior executives. As of September 26, 2014, the majority of these market-based PRSUs are still outstanding, and no market-based PRSUs have vested.

A summary of activity for our RSUs and PRSUs for the nine months ended September 26, 2014 and information regarding RSUs and PRSUs outstanding and expected to vest as of September 26, 2014 is as follows:

(In thousands, except per share amounts and terms)	Number of Shares	Weighted-Average Grant-Date Fair Market Value Per Share	Weighted-Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value (1)
Outstanding, December 31, 2013	6,392	$ 34.80		
Grants	2,016	$ 32.48		
Vested	(2,157)	$ 34.61		
Forfeited/Cancelled	(483)	$ 34.77		
Outstanding, September 26, 2014	5,768	$ 34.07	1.6	$207,776
Vested and expected to vest, September 26, 2014	5,076	$ 34.07	1.5	$182,855

(1) Aggregate intrinsic value represents the closing price per share of our stock on September 26, 2014, multiplied by the number of RSUs and market-based PRSUs outstanding or vested and expected to vest as of September 26, 2014.

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A summary of stock option activity for the nine months ended September 26, 2014 and information regarding stock options outstanding, exercisable, and vested and expected to vest as of September 26, 2014 is as follows:

(In thousands, except per share amounts and terms)	Number of Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value [1]
Outstanding, December 31, 2013	3,446	$ 28.11		
Grants	—	$ —		
Exercises	(937)	$ 20.80		
Forfeited/Cancelled/Expired	(62)	$ 30.06		
Outstanding, September 26, 2014	2,447	$ 30.86	4.7	$ 17,752
Exercisable, September 26, 2014	1,873	$ 29.28	3.9	$ 16,427
Vested and expected to vest, September 26, 2014	2,402	$ 30.78	4.7	$ 17,639

(1) For those stock options with an exercise price below the closing price per share on September 26, 2014, aggregate intrinsic value represents the difference between the exercise price and the closing price per share of our common stock on September 26, 2014, multiplied by the number of stock options outstanding, exercisable, or vested and expected to vest as of September 26, 2014.

For the three and nine months ended September 26, 2014, 0.3 million and 0.9 million of non-qualified stock option shares were exercised, respectively. The total intrinsic value of stock options exercised for the three and nine months ended September 26, 2014 was $4.8 million and $12.8 million, respectively. The aggregate intrinsic value represents the difference between the exercise price and the selling price received by option holders upon the exercise of stock options during the period. The total cash received from employees as a result of stock option exercises during the three and nine months ended September 26, 2014 was $7.2 million and $19.5 million, respectively.

As of September 26, 2014, our 2005 Equity Incentive Plan had a total of 26.4 million shares reserved for future issuance, of which 17.8 million shares were available for future grants.

ESPP

Our ESPP has two consecutive, overlapping twelve-month offering periods, with a new period commencing on the first trading day on or after May 1 and November 1 of each year and terminating on the last trading day on or before April 30 and October 31. Each twelve-month offering period generally includes two six-month purchase periods. The purchase price at which shares are sold under the ESPP is 85% of the lower of the fair market value of a share of our common stock on (1) the first day of the offering period, or (2) the last trading day of the purchase period. If the fair market value at the end of any purchase period is less than the fair market value at the beginning of the offering period, each participant is automatically withdrawn from the current offering period following the purchase of shares on the purchase date and is automatically re-enrolled in the immediately following offering period.

We sold 376,031 shares of common stock under the ESPP at a price of $27.61 during the nine months ended September 26, 2014, and 390,077 shares of common stock under the ESPP at a price of $26.87 during the nine months ended September 27, 2013. As of September 26, 2014, 3.7 million shares were available for future issuance under the ESPP.

Note 16 — Stockholders' Equity

We repurchase shares under our stock repurchase program announced on July 15, 1996, which has no specified expiration. No existing repurchase plans or programs have expired, nor have we decided to terminate any repurchase plans or programs prior to expiration. In 2013, we announced that our board of directors increased the share repurchase program authorization by an additional 30.0 million shares. Combined with the board's previous authorizations, there was a total of 233.0 million shares authorized for repurchase with approximately 22.0 million shares remaining for further repurchases under our stock repurchase program as of September 26, 2014. Since the inception of the stock repurchase program through September 26, 2014, we have repurchased a total of 211.0 million shares of our common stock for an aggregate cost of $4.8 billion.

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During the nine months ended September 26, 2014, we repurchased 14.8 million shares of our common stock for a total of $503.0 million under our stock repurchase program at an average price per share of $34.09. During the nine months ended September 27, 2013, we repurchased 1.9 million shares of our common stock for a total of $60.3 million under our stock repurchase program at an average price per share of $32.54. All shares were retired upon acquisition and have been recorded as a reduction of Common stock, Capital in excess of par value and Retained earnings, as applicable.

Note 17 — Income Taxes

We file income tax returns with the IRS and in various U.S. states and foreign jurisdictions. On December 8, 2011 and January 23, 2012, the IRS issued Statutory Notices of Deficiency (the “Notices”) determining, respectively, additional taxes for 2002 through 2004 of $19.8 million and additional taxes for 2005 through 2007 of $21.4 million, excluding interest. The IRS’s determinations relate primarily to inter-company transactions, computational adjustments to the R&D credit and reductions to the benefits of tax credit carry backs and carry forwards. We deposited $18.0 million as a cash bond with the IRS in 2008, and converted this amount to tax payments in March 2012. On March 6, 2012 and April 20, 2012, we filed petitions challenging the Notices in the U.S. Tax Court. The petitions request redetermination of the deficiencies produced by the IRS’s adjustments. The IRS has filed responses to our petitions, in which the IRS conceded the R&D credit adjustment for 2004. The Tax Court has consolidated the two cases and a judge has been assigned. The federal statute of limitations for the 2002 and 2003 tax years has expired, and the ongoing Tax Court litigation concerns only the 2004 through 2007 years.
On January 31, 2013, the IRS conceded one of the adjustments at issue in the litigation for the 2004 through 2007 tax years. The conceded adjustment related to certain inter-company services transactions. The concession only impacted our 2007 tax year. As a result of this concession, we recognized a tax and interest benefit of $6.8 million in 2013 due to the release of certain tax reserves. Altera and the IRS have filed cross motions for partial summary judgment on the largest adjustment still at issue, which is related to the treatment of stock-based compensation in an inter-company cost-sharing transaction. As part of the partial motion for summary judgment process, both sides filed briefs on May 28, 2013, July 25, 2013 and September 9, 2013. We expect to present additional legal arguments related to certain affirmative adjustments raised by Altera in the litigation. The parties have filed a series of Joint Status Reports with the court addressing these affirmative adjustments. The parties presented oral arguments on the partial summary judgment issue to the Tax Court on July 24, 2014. We believe we have made adequate tax payments or accrued adequate amounts for our tax liabilities for 2004 through 2007 and that the outcome of the above matters will not have a material adverse effect on our consolidated operating results or financial position.
On April 19, 2013, the IRS notified us that we would be audited for each of the 2010 and 2011 tax years. We believe we have made adequate tax payments or accrued adequate amounts for our tax liabilities for 2010 and 2011 and that the outcome of the audit will not have a material adverse effect on our consolidated operating results or financial position.

Other significant jurisdictions in which we are or may be subject to examination for fiscal years 2002 forward include China (including Hong Kong), Denmark, Ireland, Malaysia, Japan, Canada, United Kingdom and the state of California. We believe we have made adequate tax payments and/or accrued adequate amounts such that the outcome of these audits will have no material adverse effect on our consolidated operating results. Due to the potential resolution of various tax examinations, and the expiration of various statutes of limitations, it is possible that our gross unrecognized tax benefits may change within the next twelve months. However, given the number of years remaining subject to examination and the number of matters being examined, we are unable to estimate the full range of potential adjustments to the balance of gross unrecognized tax benefits.

Our effective tax rate reflects the impact of a significant amount of our earnings being taxed in foreign jurisdictions at rates below the U.S. statutory tax rate. Our effective tax rate for the three months ended September 26, 2014 was 12.7% compared with 6.7% for the three months ended September 27, 2013. The increase in our effective tax rate was primarily due to lower one-time tax benefits in 2014 compared with the same period in 2013, and the expiration of the U.S. federal research and development tax credit for 2014. The U.S. federal research and development tax credit has not been extended beyond 2013. During the three months ended September 26, 2014, we reversed $2.9 million of liabilities and related interest for uncertain tax positions upon the expiration of foreign and domestic statutes of limitation, which was substantially offset by the change in proportionately lower earnings in foreign jurisdictions taxed at rates below the U.S. statutory tax rate. During the three months ended September 27, 2013, the U.S. federal research and development tax credit was reinstated, which had expired in 2011, and we reversed $30.3 million of liabilities and the related interest for uncertain tax positions upon the expiration of foreign and domestic statutes of limitation, which was substantially offset by $27.7 million of tax accrued on foreign dividends.

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Our effective tax rate for the nine months ended September 26, 2014 was 11.6%, compared with 4.4% for the nine months ended September 27, 2013. The net change in our effective tax rate was primarily due to lower one-time tax benefits in 2014 compared with the same period in 2013, and the expiration of the U.S. federal research and development tax credit for 2014. During the nine months ended September 26, 2014, we reversed $6.9 million of liabilities and the related interest for uncertain tax positions upon the expiration of a domestic and foreign statute of limitations, which was substantially offset by the change in proportionately lower earnings in foreign jurisdictions taxed at rates below the U.S. statutory tax rate. During the nine months ended September 27, 2013, we recognized a benefit of $10.6 million resulting from the enactment of the American Taxpayer Relief Act in January 2013, which extended the U.S. federal research and development tax credit through December 31, 2013. In addition, we reversed $6.8 million of liabilities for uncertain tax liabilities due to the IRS conceding an adjustment for certain 2007 inter-company transactions in our litigation regarding the 2004 through 2007 tax years, $2.3 million of liabilities for uncertain tax positions relating to changes in estimates for certain foreign tax jurisdictions, and $30.3 million of liabilities for uncertain tax positions upon the expiration of foreign and domestic statutes of limitation and the related interest, which was substantially offset by $27.7 million of tax accrued on foreign dividends.

As of September 26, 2014, we had total gross unrecognized tax benefits of $330.5 million which, if recognized, would potentially impact our effective tax rate. On December 31, 2013, we had total gross unrecognized tax benefits of $301.3 million. We are unable to make a reasonable estimate as to if and when cash settlements with the relevant taxing authorities may occur.

We recognize interest and penalties related to uncertain tax positions in our income tax provision. We have accrued approximately $51.7 million and $48.8 million for the payment of interest and penalties related to uncertain tax positions as of September 26, 2014 and December 31, 2013, respectively.

During the fourth quarter of fiscal 2013, we recorded a deferred charge for the deferral of income tax expense on intercompany profits that resulted from the sale of our newly acquired intellectual property rights from one of our U.S. subsidiaries to one of our foreign subsidiaries. The deferred charge is included in Other current assets and Other assets, net on our consolidated balance sheets. As of September 26, 2014, the deferred charge balance in Other current assets was $2.2 million, and $17.2 million in Other assets, net. The deferred charge will be amortized on a straight-line basis as a component of income tax expense over ten years, based on the economic life of the intellectual property and is not expected to have a material impact on our effective tax rate.

In connection with one of our acquisitions in 2013, we are indemnified by the selling company for certain potential tax obligations arising prior to the acquisition. We have recognized a tax indemnification receivable of $6.5 million in Other assets, net in our consolidated balance sheets. We do not expect any significant effect on earnings or cash flows related to these potential tax obligations.

Note 18 — Non-Qualified Deferred Compensation Plan

We allow our U.S.-based officers and director-level employees to defer a portion of their compensation under the Altera Corporation Non-Qualified Deferred Compensation Plan (the “NQDC Plan”). Our Retirement Plans Committee administers the NQDC Plan. As of September 26, 2014, there were 125 participants in the NQDC Plan who self-direct their investments, subject to certain limitations. In the event we become insolvent, the NQDC Plan assets are subject to the claims of our general creditors. Since the inception of the NQDC Plan, we have not made any contributions to the NQDC Plan, and we have no commitments to do so in the future. There are no NQDC Plan provisions that provide for any guarantees or minimum return on investments. NQDC Plan participants are prohibited from investing NQDC Plan contributions in Altera common stock. The balance of the NQDC Plan assets and related obligations was $81.4 million and $83.2 million as of September 26, 2014 and December 31, 2013, respectively.

Investment income or loss from the NQDC Plan are recorded as Loss/(gain) on deferred compensation plan securities in our consolidated statements of comprehensive income. The investment loss/(gain) also represents a decrease/(increase) in the future payout to participants and is recorded as Compensation (benefit)/expense — deferred compensation plan in our consolidated statements of comprehensive income. Compensation (benefit)/expense associated with our NQDC Plan obligations is offset by the loss/ (gain) from the related securities. The net effect of investment income or loss and related compensation expense or benefit has no impact on our income before income taxes, net income or cash balances.

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The following tables summarize the fair value of our NQDC Plan assets by significant investment category:

(In thousands)	September 26, 2014	December 31, 2013
Deferred compensation plan assets: (1)		
Level 1:		
Restricted cash equivalents	$15,897	$16,699
Equity securities	30,342	32,628
Mutual funds	33,244	32,521
Subtotal	79,483	81,848
Level 2:		
Fixed income securities	1,906	1,306
Total	$81,389	$83,154

(1) Included in Deferred compensation plan—marketable securities and Deferred compensation plan—restricted cash equivalents in the accompanying consolidated balance sheets as of September 26, 2014 and December 31, 2013.

Note 19 — Declaration of Dividend Subsequent to September 26, 2014

On October 20, 2014, our board of directors declared a quarterly cash dividend of $0.18 per common share, payable on December 1, 2014 to stockholders of record on November 10, 2014.

ITEM 2: Management's Discussion and Analysis of Financial Condition and Results of Operations

Our Management’s Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is provided in addition to the accompanying consolidated financial statements and notes to assist readers in understanding our results of operations, financial condition, and cash flows. This interim MD&A should be read in conjunction with the MD&A in our Annual Report on Form 10-K for the year ended December 31, 2013.

The following MD&A, as well as information contained in the risk factors described in Part II Item 1A of this report and elsewhere in this report, contains forward-looking statements, which are provided under the “safe harbor” protection of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are generally written in the future tense and/or are preceded by words such as “will,” “may,” “should,” “could,” “expect,” “suggest,” “believe,” “anticipate,” “inte “seek,” “estimate,” “continue,” or other similar words. In addition, any statements that refer to projections of our future financial performance, our anticipated growth and trends in our business, uncertain events or assumptions, and other characteristics of future events or circumstances are forward-looking statements. Examples of forward-looking statements include statements regarding (1) our gross margins and factors that affect gross margins; (2) trends in our future sales; (3) our research and development expenditures and efforts; (4) our capital expenditures; (5) our provision for tax liabilities and other critical accounting estimates; and (6) our exposure to market risks related to changes in interest rates, equity prices and foreign currency exchange rates.

Forward-looking statements are not guarantees of future performance and involve risks and uncertainties. The forward-looking statements contained in this report are based on information that is currently available to us and expectations and assumptions that we deemed reasonable at the time the statements were made. We do not undertake any obligation to update any forward-looking statements in this report or in any of our other communications, except as required by law. All such forward-looking statements should be read as of the time the statements were made and with the recognition that these forward-looking statements may not be complete or accurate at a later date.

Many factors may cause actual results to differ materially from those expressed or implied by the forward-looking statements contained in this report. These factors include, but are not limited to, those risks described in Part II Item 1A of this report and those risks described under “Management's Discussion and Analysis of Financial Condition and Results of Operations” and “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2013.

CRITICAL ACCOUNTING ESTIMATES

The preparation of our consolidated financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires our management to make judgments and estimates that affect the amounts reported in our consolidated financial statements and accompanying notes. Our management believes that we consistently apply these judgments and estimates and the consolidated financial statements and accompanying notes fairly represent all periods presented. However, any differences between these judgments and estimates and actual results could have a material impact on our consolidated statements of comprehensive income and financial position. Critical accounting estimates, as defined by the Securities and Exchange Commission (“SEC”), are those that are most important to the portrayal of our consolidated financial condition and results of operations and require our management's most difficult and subjective judgments and estimates of matters that are inherently uncertain. Our critical accounting estimates include those regarding (1) revenue recognition, (2) valuation of inventories, and (3) income taxes. For a discussion of our critical accounting estimates, see “Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Estimates” in our Annual Report on Form 10-K for the year ended December 31, 2013.

RESULTS OF OPERATIONS

Overview

	Three Months Ended			Nine Months Ended		
(In thousands, except share and per share data)	September 26, 2014	June 27, 2014	Change	September 26, 2014	September 27, 2013	Change
Net sales	$499,606	$491,517				